



EUROPEAN PARLIAMENT

DIRECTORATE GENERAL EXTERNAL POLICIES

Policy Department

POLITICAL AND ECONOMIC SITUATION OF JAPAN and ITS RELATIONS WITH THE EU

NOTE

Abstract:

This note outlines the current political and economic situation of Japan and its relations with the European Union. It is divided into three main sections. The first reviews the political situation with special attention to domestic reform attempts and external relations with Japan's neighbours. The second section briefly outlines the economic situation, while the third section reviews relations with the EU.

This note has been prepared for the information of Members of the European Parliament and is for internal parliamentary use. The contents of this report may contain certain personal views that are not the views of the European Parliament, unless specifically stated.

This note was requested by the Delegation for relations with Japan

This paper is published in the following languages:
English.

Author: Chris Brown
under the authority of Anton Lensen.

Manuscript completed in March 2005. This note is an update of a note on Japan of March 2004.

Copies can be obtained through: E-mail: ccalvo@europarl.eu.int

Luxembourg, Brussels, European Parliament, 22 March 2005.

For further information, please contact the editor: Anton Lensen, tel. (352) 4300 23707

CONTENTS

SUMMARY	3
POLITICAL SITUATION	5
BACKGROUND	5
POLITICAL STRUCTURE	5
KEY POLITICAL PLAYERS	7
MAIN POLITICAL FORCES	8
POLITICAL CONTROL OF THE ECONOMY	10
ADMINISTRATIVE REFORMS	10
PENSIONS	11
EDUCATION	11
FOREIGN POLICY	12
UNITED STATES	12
CHINA	13
THE KOREAS	14
ASSOCIATION OF SOUTH-EAST ASIAN NATIONS (ASEAN)	15
ECONOMIC SITUATION	16
INVESTMENT	16
GDP FIGURES	16
MONETARY POLICY	17
NON-PERFORMING LOANS	18
TRADE	18
EU-JAPAN RELATIONS	20
THE ROLE OF THE EUROPEAN PARLIAMENT	23
ANNEX. JAPAN: MAIN DATA	24

SUMMARY

Since 1993, Japan has had ten different Prime Ministers and this *political volatility* is a reflection of the transformations that the country is currently undergoing. The current Prime Minister, Junichiro Koizumi, came to power in April 2001 as an unaffiliated candidate whose campaign was based on the promise of diluting factional influences and thus effecting far-reaching economic reform. The current government is a coalition between the Liberal Democratic Party (LDP) and a junior partner, the New Komeito Party. Major political concerns at present include: Japan's economic situation; the issue of providing pensions for an ageing population, domestic 'reform' (e.g. postal privatisation) and relations with N. Korea in light of recent revelations over Japanese abductees. Japan's most

important ally remains the United States; with relations based on security and economics. The US-Japan Security Treaty codifies Japan's position under the US defence umbrella. Following the terrorist attacks of 11 September 2001, the Diet passed legislation allowing *Japanese forces* to be used *abroad* for the first time since World War II, raising questions of whether this breached Article 9 of Japan's pacifist constitution which deals with the legitimate use Japan's "self-defence" forces. Japan made significant contributions to the reconstruction of Afghanistan and has adopted a pro-US stance on Iraq. Although there are sporadic *trade disputes* between the two nations, trade and investment are the other cornerstones of US-Japan relations.

The *Japanese economy* is hesitantly *improving* after a decade of crisis. The rapid economic expansion of the post-war years - propelled by highly successful car, hi-fi and electronics industries - had by the 1990s run out of steam, and for the last few years Japan has been struggling to recover from the serious recession of 1997. At 2.6%, full-year growth in 2004 was the highest since 1996 - yet Japan was officially in recession after two successive quarters of negative growth by year-end.¹ There remains a severe credit crunch, while unemployment and bankruptcy levels have never fully recovered. Underlying this is an ailing financial sector that is weighed down by a large debt. Successive fiscal stimuli packages, supported by loose monetary policies, have done little to help. Rapid implementation of extensive structural reform is essential for sustained recovery, while only now are non-performing loans (NPLs) returning to 'normal' levels of 4% of total loans, after double that percentage in 2002.² Koizumi initially committed his government to comprehensive reforms, but several proposals have not gone beyond the policy-formation stage or have been diluted by conservative forces that are opposed to reforms. Even if implemented, structural reforms will take time to yield tangible results.

The *EU-Japan* political declaration of 1991 established common principles, shared objectives in political, economic, co-operation and cultural areas and an annual consultative framework between the EU and Japan. In 2001, an EU-Japan Action Plan addressed four major objectives: (1) Promoting peace and security; (2) Strengthening the economic and trade partnership; (3) Coping with global and societal changes, and (4) Bringing together peoples and cultures. The EU and Japan are both major economic powers striving for a matching political influence and wish to develop political co-operation with each other. With regards to trade and economics, the relationship between the EU and Japan has changed from being characterised by trade disputes to focussing on deregulation and structural reform; for example, through the annual *Regulatory Reform Dialogue* that has been taking place since 1994. There is also *close policy co-operation* between the EU and Japan in the forum of the WTO.

¹ World Markets Research Centre, Country Updates, February 2005

² Oxford Analytica, Japan: Policy change under consideration, 17 February 2005

POLITICAL SITUATION

Background

While retaining aspects of its traditional culture, Japan rapidly absorbed Western technology during the late 19th and early 20th centuries. After defeat in World War II, Japan recovered to become the second most powerful national economy in the world and a staunch ally of the US. While the emperor remains head of state as a symbol of national unity, actual power rests in networks of powerful politicians, bureaucrats, and business executives.³

Population: 127,333,002 (July 2004 est.)⁴

Ethnic groups: Japanese 99%, others 1% (Korean 511,262, Chinese 244,241, Brazilian 182,232, Filipino 89,851, other 237,914) (year 2000)⁵

Religions: Shinto and Buddhist 84%, other 16% (including Christian 0.7%)

Languages: Japanese

Political structure

Japan is a constitutional monarchy with a parliamentary government.

Executive

The head of government is the Prime Minister, who is designated by the Diet (parliament). The constitution requires that the Prime Minister must command a parliamentary majority; therefore, following legislative elections, the leader of the majority party or leader of a majority coalition in the House of Representatives usually becomes Prime Minister. He/she appoints the cabinet.

Legislature

The legislative branch is represented by the Diet, which is the highest organ of state. The Diet consists of two chambers, the Lower House, named House of Representatives and the Upper House, named the House of Councillors. The House of Councillors consists of 242 members and the House of Representatives of 480 members. The Upper House is elected for six-year terms, with half of its members coming up for election every three years. The Lower House is elected every four years. Of its members, 300 are elected to single-seat constituencies, with the remaining 180 members being elected by proportional representation in 11 regional blocs. Both houses are directly elected by universal suffrage. The House of Representatives is constitutionally superior to the House of Councillors, having the power to overrule the Upper House in the selection of the Prime Minister, in passing the national budget and in approving international treaties.

The last general election for the upper house took place on 11 July 2004 (the next Upper House elections are due in mid-2007), while for the Lower House, the elections were held in November 2003 (next election is due by November 2007). 2005 will see several by-elections.

³ CIA World Factbook, <http://www.cia.gov/cia/publications/factbook/geos/ja.html#Intro>

⁴ *ibid.*

⁵ *ibid.*

Composition of the Diet

Party	Lower (as of 24 December, 2004) ⁶	Upper (as of 17 January 2005) ⁷
LDP	249	114
New Komeito	34	24
Government Total	283	138
DPJ (incl. 'Club of Independents')	177	84
Japanese Communist Party	9	9
Social Democratic Party	6	6
Independents	3	5
Vacancies	2	0
Total	480	242

Provincial Government in Japan is divided into 47 prefectures, each with an elected governor. Although the prefectures have various administrative powers, the most important issues are decided by central government.

⁶ The House of Representatives, http://www.shugiin.go.jp/index.nsf/html/index_e_strength.htm

⁷ The House of Councillors, <http://www.sangiin.go.jp/eng/member/index.htm>

Key political players⁸

Head of State	Emperor Akihito has been Emperor since 1989, when he took over from his father, Hirohito.
Prime Minister	Junichiro Koizumi (LDP), Prime Minister since April 2001. He ran for the leadership, unaffiliated to any party faction, promising sweeping reform of the political-economic system. Partially successful in his campaign to 'Change the LDP, Change Japan', he faces continued opposition from traditionalists within the LDP. Criticism from other parties and the public in general has focused around the Japanese Self Defence Force (SDF) involvement in Iraq.
Minister of Finance	Sadakazu Tanigaki , finance minister since November 2003. He has a diploma in law studies. Mr. Tanigaki has held various portfolios, including Industrial Revival and Food Safety.
Minister of State for Economic and Fiscal Policy Minister of State for Privatisation of the Postal Services	Heizo Takenaka , unencumbered by bureaucratic links, has become one of the most prominent reformers under Koizumi. This ex-economics professor has, since September 2004, been entrusted with (controversial) postal services privatisation.
Minister of Economy, Trade and Industry	Shoichi Nakagawa . Appointed in 2003, he was formally agricultural minister and LDP Headquarters Chairman. He calls for a hard-line approach to North Korea.
Minister for Foreign Affairs	Nobutaka Machimura , appointed September 2004, previously served as vice minister for foreign affairs and on the LDP defence committee.
Minister of State for Defence	Yoshinori Ohno , with extensive international experience from service in Washington and Geneva, speaks fluent English and French. Appointed September 2004, he has no specific foundation in security matters, but has a close working relationship with American officials - helped through association with US-Japan parliamentary exchanges.
Acting Secretary-General Liberal Democratic Party	Shinzo Abe , from a distinguished political family, is one of the most popular politicians in Japan - sometimes rumoured to succeed Koizumi. He has led negotiations on behalf of the families of Japanese abducted by N. Korea.

⁸ Prime Minister of Japan and his Cabinet, <http://www.kantei.go.jp/foreign/index-e.html>; World Markets Research Centre, Country Report Japan, March 2005; Abe Profile, http://tokyo.s-abe.or.jp/profile_in_english.html

Leader of the opposition Democratic Party of Japan (DJP)	Katsuya Okada took leadership of the DJP following Naoto Kan's resignation over a pension payment scandal in May 2004.
Tokyo Metropolitan Mayor	Shintaro Ishihara , mayor since 1999, has a nationalist reputation and opposes central government's reform programme. He is known for his hostility to both China and the US, his blunt-speaking politics are considered an undermining irritant for the LDP.

Political stability

Until 1993 the Liberal Democratic Party (LDP) governed alone but Japanese politics have become more fluid with ten Prime ministers since then. Several short-lived parties of the past decade have been absorbed by larger groupings. Although no longer able to govern alone, the LDP continues to dominate the political landscape. It currently governs in a formal coalition with New Komeito (which is itself closely allied to a large lay-Buddhist organisation, Soka Gakkai). Although the coalition enjoys dominance in both houses of the Diet, the parties differ on many key policies, such as defence and fiscal reform. The LDP is also internally divided on policy, particularly under Koizumi's platform of radical economic reform, much of which directly threatens the vested interests of the party's old guard. The party's largest faction, which is the Hashimoto faction, and the third-largest faction, the Eto-Kamei faction, form the main focus of opposition to Mr Koizumi's policies.⁹

The largest opposition party, the DPJ, has too few parliamentary seats to be able to challenge the LDP on its own. The party's unity is also uncertain - it was formed from the original DPJ and the fragments of its predecessor as largest opposition party, Shinshinto (New Frontier Party), and embraces a correspondingly wide range of ideologies, both left- and right-wing. It currently has ten or so internal groupings, agitating for issues as wide-ranging as preserving the "peace" constitution and promoting policies for urban voters. The party's weakness has forced it to look for allies in other opposition parties in order to bolster its parliamentary support. The recruiting into government of the third-largest party, New Komeito, by the LDP has, however, depleted the opposition ranks.¹⁰

Main political forces

The Liberal Democratic Party (LDP)

The LDP stamped its authority on Japan's political landscape in the 1950s under the tutelage of US occupation. Two simple principles guided policy: development of the market economy and commitment to non-aggression under the shelter of the US security umbrella. Japan's two main conservative political parties, the ruling Democratic Party and the Liberal Party, merged to form the

⁹ Economist Intelligence Unit (EIU), Japan Country Profile, 2003

¹⁰ Economist Intelligence Unit (EIU), Japan Country Profile, 2003

Liberal Democratic Party (LDP). In the same year the main opposition party, the Japan Socialist Party (JSP), which had been split since 1951, also reunified. Thereafter, aided by the weakness of the JSP and helped by its assiduous soliciting of the support of bureaucrats and powerful lobbies in business and agriculture, the LDP was to enjoy nearly 40 years in power. One consequence of this long period of dominance by the LDP and of the party's reliance for support on particular interest groups, was a problem of governance¹¹, particularly in the party's upper echelons, as its various factions vied with each other for influence.¹²

A defining moment came in 1993, when the LDP lost power for the first time to an opposition coalition. Although regaining power the following year as part of a coalition, the LDP saw erosion of its parliamentary representation in both houses through the late 1990s. The public popularity of Koizumi since 2001 somewhat helped the LDP's continued dominance, but this too has been under strain. Various opinion polls from early 2005 suggest that percentage approval ratings for Koizumi and his cabinet are in the lower 30s, yet a majority wish to see him serve until the end of his term in 2006, while 66% could name no preferred alternative.¹³

LDP Factions

Internal factions determine politics inside the LDP, each wielding as much influence as individual political parties. Factional influence has been framed in the '1955 system', with backroom dealing brokered by shadow shoguns determining the nature of party policy and leadership. However, with the disappearance of lynchpin figures from the political scene, combined with growing popular disaffection with this system of politics as a whole, factional power appears to be suffering an unprecedented decline. However, the factions still retain considerable influence over the distribution of cabinet portfolios, candidate-backing in elections and selection of leadership.

New Komeito Party

The New Clean Government Party - sometimes translated as 'New Komeito Party' - is a political party in Japan affiliated with the religious movement Soka Gakkai. The present New Clean Government Party was formed as a result of a merger between Komei and the New Peace Party in 1998.

Democratic Party of Japan (DPJ)

The DPJ emerged from the 1998/1999 Diet elections as the central opposition force. Against the pro-business, big-spending policies of the LDP, the DPJ advocates fiscal austerity and tax rises to tackle ballooning national debt. The DPJ is a leading advocate of political reform, calling for devolution of power to the regions, contraction of bureaucracy and revision of the electoral system. In 2003 and 2004 the party made further electoral advances, and is increasingly seen as a viable opposition party, if not yet a credible governing force.

Japanese Communist Party (JCP)

Formed in 1922, the JCP has strong representation among parties at local level. The JCP remains opposed to the US military presence and supports abrogation of the US-Japan Security Treaty. In

¹¹ In the Corruption Perception Index 2004, issued by the Transparency International, Japan is 24th among 146 countries, with a score of 6.9 points, the grading system starting at 10.0 with the highly clean country and ending at 0.0 with the highly corrupt country. Its neighbours in the ranking are Spain and France with 7.1 points and Malta with 6.8 points. Transparency International, *Corruption Perception Index 2004*, http://www.transparency.org/pressreleases_archive/2003/dnld/cpi2003.pressrelease.en.pdf

¹² Economist Intelligence Unit (EIU), Japan Country Profile, 2003

¹³ World Markets Research Centre, Recent Updates, February 2005; 'How Koizumi Lost his Groove', <http://www.time.com/time/asia/magazine/article/0,13673,501050214-1025223,00.html>

terms of economic policy, the JCP advocates democratic control of multinational corporations and non-interventionism and opposition to US hegemony in foreign policy.

Social Democratic Party (SDP)

The SDP is another party in Japan's political centre. The party adheres to the current constitution and the US-Japan Security Treaty from an internationalist position. Broadly the SDP supports a shift in emphasis from economic to social development. The SDP is a vocal proponent of decentralisation.

Political control of the economy

Economic stagnation since 1992 has had a profound impact not only on corporate and financial sectors but also on political and social structures. Employment insecurity and some corporate collapses have undermined the unquestioning acceptance of the LDP's political control, grounded in the traditional nexus of government, bureaucracy and business. Deep-seated debate over the future development of society and politics to support the reorientation of the economy has begun.

Radical wings in the LDP are lobbying for a revolution in traditional corporate culture and full liberalisation to foster greater innovation and entrepreneurship in response to the demands of an evolving knowledge-based economy. However, the government's protection of big business patrons and wariness of the political side-effects of rising unemployment has so far led it to resist major restructuring as an alternative to big public spending packages intended to prop up the economy.

While the success of his reform plan is coming under increasing scrutiny, self-styled reformist Koizumi certainly raised expectations of a pro-active policy to clean up corporate debt. Popular opinion has moved behind potentially painful restructuring as the budget-deficits of the 1990s have had only limited impact in reviving the economy.

Administrative reforms

Reforms, which took effect on 6 January 2001, sought to streamline the bureaucracy and decentralise its power. Core measures included:

- A rationalisation in the number of ministries
- Establishment of 59 new independent administrative institutions (IAIs)
- Implementation of a new system to hire experts from the private sector

Creation of a Council on Economic and Fiscal Policy, directly controlled by the Prime Minister. The Council will draft the basic principles in budget allocation and fiscal management. The amalgamated Ministry of Land, Infrastructure and Transport is one of the most powerful portfolios, responsible for the allocation of 80% of all public works projects.

Political Reform

Reform of the electoral system and civil service is one of the key issues in Japanese politics. The stifling effect of bureaucracy on the development of effective parliamentary democracy, combined with ambiguous relations between commerce and central government in the *zoku* system of politics, have led to such calls. Downsizing, transparency and devolution of power are suggested as the means to dismantle counter-productive *zoku* and to accelerate the process of political and economic reconstruction. Domestic pressure for change has built among a public weary of corruption scandals, gross extravagance with public funds and general lack of accountability. International pressure for reform has sprung from calls for sweeping deregulation of markets. The conservative bureaucracy, with its close links to commerce, is seen as the main obstacle to socio-economic reconstruction.

Koizumi pledged to invigorate the political environment by abandoning policy-making by factions of the ruling LDP. Government is to be appointed on merit, incorporating experts from the private sector. However, while Koizumi's line-up included non-affiliated legislators and a record number of women and private sector figures, it remains weighted to appease the factions upon which its authority continues to depend. Despite this, Koizumi has received heckling from unimpressed LDP representatives, most recently over privatisation of the postal services. Indeed postal reform has emerged as amongst the most contentious of domestic issues. This is because a majority of Japanese still channel their savings through the postal system. In 2001 deposits with the postal system were estimated to account for around a third of all money held in savings by private households. Successive governments have then funnelled those funds into favoured public works. Politicians have strong vested interests in the preservation of the existing system because of the power over resource allocation that it entails. A 2002 postal Act of Koizumi's effectively reneged on the promise of genuine privatisation. The creation of a Minister of State for Privatisation of the Postal Services ensures that it remains a lively area of debate.¹⁴ Some polls have suggested popular 'interest' in the privatisation (at 68%), others have suggested it remains a low public priority, behind issues such as pensions or economic performance.¹⁵

Pensions

In common with other advanced industrialised nations, Japan's declining birth rate could create a major fiscal crisis within 20 years. By 2020, there will only be two workers to support each pension recipient - against a ratio of 4.4 to 1 in 1997 - falling further by 2050 to 1.5 to 1. Faced with current particular labour shortages, the government intends to relax immigration controls in 2005, for both skilled and unskilled labour.¹⁶

The pension problem is likely to remain a major political issue. State spending to cover shortfalls in pension funds amounted to 1 trillion yen in 1998. However, the disappearing of fiscal reserves and accumulation of large national debt to boost the economy out of recession have substantially reduced state capacity to finance the deficit. Moderate reforms to cut benefits and raise premiums have already been met with opposition in government itself and from labour unions.

Education

The education system, which traditionally emphasised uniformity, came under increasing scrutiny in the 1990s. Some corners demanded the introduction of greater individualism and creativity to

¹⁴ World Markets Research Centre, Country Report Japan, March 2005

¹⁵ The Japan Times, "State finds 49% support postal reform, 68% 'interested'", <http://www.japantimes.co.jp/cgi-bin/getarticle.pl5?nn20050312f1.htm>

¹⁶ World Markets Research Centre, Recent Updates, February 2005

replace rote learning and to prepare future generations more adequately for the evolving entrepreneurial information economy. However, a spate of high-profile crimes involving adolescents and rising incidence of classroom indiscipline has brought opposition from conservatives to the reorientation of the education system: they stress instead the need to reinforce traditional values. The issue is set to continue within the context of the wider debate over future social evolution, a debate that often reflects norms distinct from those in the EU. Whatever myriad of attitudes exist towards law and order in general, the centre ground (around 80%), for example, opposes abolition of the death penalty.

Foreign policy

A product of its post-war history, Japan's foreign policy has largely been neutered by and tailored to its alliance with the US. Sheltering under the US security umbrella and circumscribed by its pre-war imperialist history, Japan's political weight in the international community has never equalled its economic standing. However, in the post-Cold War era there are signs of a more independent policy emerging, particularly towards Asia. That shift has been accentuated under Koizumi, who has been a leading advocate for the normalisation of the quasi-military Japan Self Defence Force (SDF) through a highly controversial amendment of the 1951 pacifist constitution. Any such move would be highly sensitive for Japan's bilateral relations with Asian states occupied in the 1910-1945 era of colonisation. Polls suggest that there is support for Constitutional reform in general (on female succession to the Imperial throne, for example), but the picture is less clear on SDF reform in particular. The government appears aware of this, however, and Koizumi has openly said reform of the Constitution is unlikely in 2005 - because of time needed to consult other parties. There are other signs of 'normalisation', though. In 2004, Koizumi for the first time called explicitly for the UN to back Japan's bid for a permanent seat on the Security Council (which US Secretary of State Rice explicitly backed when in Japan, March 2005). The Defence Agency may be upgraded to full ministry status during 2005, while the National Defence Guidelines for FY2005 explicitly mention China and N. Korea as security threats. Despite this, FY2005 spending-cuts target defence along with public works and overseas aid portfolios.¹⁷

United States

Japan's most important bilateral relationship is with the US. In addition to the US being an important trading partner, the two countries also co-operate closely in security matters under the terms of the Japan-US Security Treaty of 1960. Since the end of the Second World War the US has maintained a large military presence in East Asia, with around 21,000 troops stationed in Japan itself. With developments in China, N. Korea, as well as in the middle east, the past year has only encouraged the convergence of official US and Japanese interests as their bilateral security relationship takes on a more global perspective.

In the Iraq war, Japan adopted a line supportive of the US invasion. Japan announced that it would provide up to a total of US\$5 billion in assistance to Iraq. Of that figure, \$1.3bn (of a total of \$1.5bn set aside for grants) had been disbursed or decided on by November 2004. The remaining \$3.5bn is for medium-term loans.¹⁸

After 9/11, Japan's Lower House passed a bill allowing its troops to give logistical support to America and its allies in overseas military operations for the first time since World War II. This anti-terrorism bill allowed Japanese forces to be sent to a theatre of operations for reasons other than

¹⁷ National Defence Program Guideline, FY2005-, www.kantei.go.jp/foreign/policy/2004/1210taikou_e.html

¹⁸ Ministry of Foreign Affairs of Japan, http://www.mofa.go.jp/region/middle_e/iraq/issue2003/assistance/assisit0411.pdf

“survey or research”. An Anti-Terrorism Special Measures Law was also passed by the Diet on 29 October 2001; it concerns measures taken by Japan in support of the activities of foreign countries and aims to achieve the purposes of the Charter of the United Nations in response to the terrorist attack.

The bill, which clarifies the role Japan's military could play in US-led operations without violating the nation's pacifist constitution, was adopted despite objections by the main opposition Democratic Party and other opposition groups. As a result, the new legislation sparked debate across East Asia especially in China and South Korea. Under this legislation, originally effective for two years and extended since, Japan can dispatch troops to supply medical services and supplies, as well as humanitarian aid for refugees - as it has in Afghanistan and Iraq. Of course, this remains a huge domestic issue as well, as the DJP attempts to discredit Koizumi and questions the legality of the Iraq mission. In January 2005, just days after being heckled by members within his own party over postal reform, Koizumi witnessed a Diet walk-out, DJP parliamentarians claiming that he continually avoided their questions on Iraq and the SDF.¹⁹

Japan is therefore involved in a process of re-evaluation. Although controversial, debate builds over an amendment to Article 9 of the constitution (which bans the deployment of forces overseas). Conversely, both Japan's Left and nationalists question Japan's 'subservience' to the US, but in light of Japan-East Asian relations, many remain appreciative of some US role.

US-Japanese relations have also been marked by sporadic tensions over trade, peaking in the mid-1980s. As Japan attempts to export itself out recession trade disputes have again broken out. Recent contentions include: US accusation of Japanese steel dumping (the case was taken to the WTO); US pressure for the dismantling of telecom giant NTT's monopoly; Japanese counter accusations of barriers of entry to US telecom market.

Russia

Relations with Russia, although cordial in practice, require formalisation through the conclusion of a peace treaty. The sovereignty of the Kurile islands remains in contention, while many maps in Japan continue to show 1000km-long Sakhalin Island as without (or only partially within) the Russian Federation. Seized in the aftermath of WWII, the islands remain key to the projection of Russian power into north-east Asian waters and as a conduit to the north-west Pacific. The last year has seen a (behind schedule) establishment of a Japan-Russia Trade and Investment Promotion Organisation, while there is at least vocal co-operation on a number of issues, particularly on the prospect of N. Korean nuclear weaponry.

China

The Japanese occupation of China from 1933-1945 and Chinese demands for reparations remain sensitive issues. More immediate concerns include Japanese agreement to fund research and development for the Theatre Missile Defence system with the US, which China fears could be extended to incorporate Taiwan. Such a system would also undermine China's own nuclear deterrent and provide a shield for Japan to achieve nuclear parity.²⁰ China remains uncomfortable with the defence guidelines that Japan has agreed with the US, as these imply that Japan's SDF might one day help the US to defend Taiwan from Chinese aggression. Disagreements over the teaching of history and the visit of Japanese Cabinet members, including the Prime Minister to a

¹⁹ World Markets Research Centre, Recent Updates, January 2005

²⁰ Economist Intelligence Unit (EIU), Country Profile Japan, 2003

war shrine have been other important sources of friction from the Japanese side. Conversely, the prominent burning of Japanese flags on several occasions over recent years has outraged Japanese sentiment, while in November of 2004 a Chinese nuclear submarine entered Japanese waters in Okinawa Prefecture - causing an SDF scramble and an official demand of an explanation.²¹ This, of course, plays into a wider debate on ocean rights and economic exploitation of them - itself a result of China's assertive growth (and subsequent Japanese unease). Despite this, or because of it, China is now Japan's largest trading partner and is the destination for a large flow of Japanese foreign investment. As the Economist argues, however, Japan's exposure to China's economy can be overstated. Many of Japan's exports of machinery and electronics components have been driven by Japanese companies setting up shop in China, then exporting around the world. Japanese exports can therefore be buoyed by strong growth in America and elsewhere.²²

While Koizumi has been to Beijing, Japan continues to receive present and former Taiwan politicians. As early as 1974 Japan acknowledged the Communist government as the legitimate government of China but its relations with Taiwan are maintained at the unofficial level. In successive white papers on defence Japan's government has expressed concern about China's military build-up, especially in view of tensions caused by China's military exercises in the Taiwan Strait, territorial disputes over the Senkaku islands (called Daioyu in China) and China's March 2005 'anti-secession' Act. Among the numerous other sticking points between these economic giants, one has particular relevance to the EU - namely the potential selling of arms to China. Japan already vocally and consistently raises its concerns with Israel and Russia over their arms sales and argues that a European embargo-lift sends the wrong message over Chinese rights abuses and undermines Taiwan.²³

The Koreans

Relations between Japan and South Korea have always been volatile, and still ignite - as seen in March 2005 over uninhabited, but disputed islands. However, the two countries collaborated in the hosting of the soccer 2002 World Cup and since then Korean dramas, movies, karaoke, even dating agencies have become rapidly popular among some Japanese, a craze labelled the 'Winter Sonata' boom (after a TV show).²⁴ Such a 'craze' however, is largely not reciprocal, while in Japan some treat it with disdain. The issue of ethnic-Koreans in Japan in particular remains sensitive, as demonstrated by Japan's High Court January 2005 ruling that a Japanese-born woman (of Japanese mother and Korean father) could not sit a Tokyo metropolitan government promotion exam on grounds of nationality.²⁵ Koizumi's visit to Korea in March 2002, however, has built a new sense of political partnership. Although hostility lingers from Japan's occupation of the peninsula from 1910-1945, relations have improved through growing trade and investment contacts. The two have also clashed over fishing rights and the exploitation of undersea mineral resources, and over the naming of the Japan Sea, which the South Koreans want changed to "East Sea". But co-operation to contain the strategic threat posed by North Korea's missile programme has also strengthened bilateral ties with the south. Koizumi and President Roh Moo Hyun of South Korea have agreed to a

²¹ The Japan Times, 'China sub tracked by US off Guam before Japan intrusion', <http://www.japantimes.co.jp/cgi-bin/getarticle.pl5?nn20041117a8.htm>

²² The Economist, 19th February 2005, 'Japan's economy'

²³ BBC News, 'Japan hopes for Israel arms halt', <http://news.bbc.co.uk/1/hi/world/asia-pacific/4179871.stm>;
DefenseNews, 'Japan concerned about EU lifting China arms embargo',
<http://www.defensenews.com/story.php?F=674443&C=asiapac>

²⁴ Asahi, 'Complicated ties between Japan and South Korea',
<http://www.asahi.com/english/opinion/TKY200410140123.html>

²⁵ Japan Today, 'S Korean civil servant loses suit over promotion',
<http://www.japantoday.com/e/?content=news&cat=1&id=325841&display=all>

free-trade agreement but the issue of South Korean factories operating in Kaesong, North Korea's embryonic 'economic zone', complicates this.

Japan's relations with North Korea have been grounded in a policy of cautious engagement but have suffered several severe setbacks. North Korea, without warning, fired a nuclear-capable ballistic missile over Japanese territory in August 1998. However, sanctions imposed following the incident were partially lifted in line with the active engagement policies pursued by the US and South Korea. Japan remains a key player in the collective framework of the Korean Energy Development Organisation (KEDO). The setting up of KEDO is a good example of multilateral co-operation, comprising as it does the EU, Japan, the US and Korea. This organisation was formed because of the need to reduce the risk of nuclear proliferation in North Korea and promote the peaceful uses of nuclear energy. This should contribute to peace and stability in the region.

The visit to Pyongyang in September 2002 by Koizumi, appeared initially to have achieved a significant thawing in relations, with North Korea admitting to the kidnapping in the 1970s and 1980s of a number of Japanese nationals and Japan promising financial aid upon the normalisation of relations. In late 2002, however, North Korea's anger at the refusal of the Japanese government to allow the five living abductees, who were allowed to visit Japan immediately after the summit, to return to North Korea and Japanese concerns over North Korea's nuclear weapons development programme cast a new chill over bilateral relations.²⁶ Relations have sunk further with revelations in late 2004 on the abductees. The issue became highly personalised, and hence politically charged, with the case of Megumi Yokata, abducted as a 13-year-old in 1977. Japanese delegates visiting Pyongyang to collect information on the missing Japanese were given what were supposedly the cremated remains of Megumi. Pyongyang claims she killed herself in 1994. DNA testing however, proved that the remains did not belong to her but came from two unknown people.²⁷ Japan has since ceased food aid and there is popular support for full sanctions (which Pyongyang says would amount to a declaration of war).

Association of South-East Asian Nations (ASEAN)

Japan's relations with the ASEAN bloc are framed within trade and investment contacts. Japan has effectively used economic diplomacy, including trade-aid agreements and directed investment, to build up influence in countries alienated by Japanese occupation during WWII. Diplomatic contacts are becoming deeper as ASEAN seeks to cultivate ties with the industrial powerhouses of north-east Asia. However, China's developing relations with ASEAN could yet prove problematic for Japan.

²⁶ Economist Intelligence Unit (EIU), *Country Profile Japan*, 2003

²⁷ Ikjeld, 'No Aid to North Korea Says Japan', <http://www.ikjeld.com/japannews/00000097.php>

ECONOMIC SITUATION

Basic data²⁸

	2000	2001	2002	2003	2004
GDP Growth %	2.79	0.43	-0.32	2.48	4.11
Government Consumption % Change	4.89	2.97	2.36	1.04	1.66
Inflation (CPI) %	-0.88	-0.77	-0.87	-0.25	-0.17
Unemployment Rate %	4.73	5.03	5.36	5.25	4.82
Trade Balance % GDP	1.44	0.63	1.29	1.60	1.99
Current Account Balance % GDP	2.49	2.11	2.85	3.20	3.80
Foreign Direct Investment % GDP	0.17	0.15	0.15	0.13	0.11
Reserves (minus gold) \$m	354,902	395,155	461,186	640,232	760,480

Investment

Inward foreign direct investment (FDI) in Japan has been decreasing over the last years, and has fallen from €11.5bn in 1999, to €6.9bn in 2001 as foreign capital swooped on ailing Japanese financial institutions and manufacturers. The volume of FDI stood at just 0.15% of GDP in 2001, and was forecast for 0.11% in 2004. In 1998-2002, gross fixed investment accounted for around 24-27% of current-price GDP, a considerably higher rate than in countries such as Germany and the US over the same period. In the 1960s and 1970s high levels of investment, using the large pool of domestic savings, were needed as Japan caught up with high-income countries. Now that Japan has caught up with (and in some cases overtaken) these countries, however, high investment levels are less justifiable, suggesting that many funds used for this purpose are being channelled into unprofitable projects with low rates of return.

Service sectors and telecommunications are the main destinations for investment. However, FDI has begun to make incursions into manufacturing sectors undergoing consolidation and rationalisation, such as the auto industry. Moreover, political sentiment towards privatisation is warming. The Koizumi government has prioritised equity sell-offs in huge state concerns, such as the post office, both to generate income to reduce the public debt and to bolster competition and entrepreneurship in the wider economy.

Outward investment has traditionally outpaced inward flows by a large margin, simply because of Japan's unparalleled strength in generating current account surpluses, year after year. As a result, Japan remains the world's largest net creditor nation. Outward flows have been governed by the relocation of industries in emerging economies to escape high operational and production costs in Japan. In the current climate, outsourcing of production is set to increase in the drive to maximise profitability and competitiveness.

GDP figures

The economic upturn that began in early 2002 faltered during the course of the year but gained a second wind in the spring of 2003. This upturn matched the length of the previous expansion, which started at the end of 1999. Successive quarterly contractions in 2004 have come as a surprise to

²⁸ Data and 2004 estimates as of 17th January 2005, World Markets Analysis, Country Analysis, p18-19.

NOTE: performance for 2004 has since generally been revised down. World Markets Analysis' partial update in February put 2004 GDP growth at 2.6%.

many, but full-year growth still saw improvement on 2003, while 2005 is predicted at 1.5%, with signs of a pick-up in progress. The pace of output growth, at an annualised rate of nearly 3 per cent since the beginning of 2002, has not been strong enough to reduce the unemployment rate markedly from its record high of 5½ per cent (4.82% in 2004), while deflation has eased from 0.88% (2002) to below a fifth of a per cent for 2004. It is argued that Japan's continued malaise, despite expansionary macroeconomic policies, reflects the impact of the collapse of the asset price bubble, the failure to adequately address banking-sector problems, weak competition and outdated regulations in many sectors that limit business-sector dynamism.²⁹ The scope for macroeconomic policies to promote growth and to ensure price stability appears to be small, placing Japanese policymakers in a difficult dilemma.

Fiscal Policy

The reliance on expansionary fiscal policy over the past decade has supported activity but has been unable to launch a durable economic recovery, while boosting the public debt to GDP ratio to extraordinarily high levels. The Economist Intelligence Unit considers that Japan's fiscal position will remain poor for some time, so that even if consumption tax is raised modestly towards the end of the decade and 1999's income tax cuts are fully reversed (they are due to be partially reversed in 2006) the primary balance will remain in deficit of 6-7% of GDP in the years to 2009, as welfare costs for the ageing population outstrip increases in revenue. The budget deficit for 2005 is forecast to be just under 8% of GDP while gross public debt stock could approach 185% of GDP by end-2006.³⁰ All this despite the FY2005 budget being below ¥800bn (US\$7.7bn) for the first time in 16 years.³¹

Monetary Policy

Japanese monetary policy has been loose over the past few years. Since 1997, with a brief interruption from late 2000 to early 2001, the short-term interest rate through which the Bank of Japan (BOJ, the Central Bank) influences commercial activity has been stuck at 0%. More recently the BOJ has gradually raised its target for the current-account balances held by private banks at the BOJ. These measures have not been enough to overcome Japan's firmly established price deflation, partly because corporate and bank demand for credit is not strong enough to use the funds that the central bank is offering.

Recent experience in the money market, where Japanese banks have not sought the level of liquidity which the BOJ offers them under the interest rate policy, suggest that the justification for maintaining the zero rate is being eroded. The OECD suggested in January 2005 that the BOJ should focus on ending deflation as it was bad for growth, yet the BOJ will have to weigh various factors when deciding when and how to alter its monetary policy. The BOJ's predilection towards tightening is looking more justified in 2005 than in previous years.

Though Mr Fukui's appointment as Governor in April 2003 marked a new willingness to start experimenting with alternative monetary tools. The BOJ's new leadership appears to have recognised that its predecessors' reliance on the banking system to "multiply" credit was mistaken because those banks were reducing their outstanding loans and therefore would not react to increases in the amount of capital supplied by the BOJ. Instead, it has begun circumventing the banks, injecting capital into the economy through "unconventional" channels. One means of doing this is buying securities from financial institutions that are backed by loans made by these institutions to SMEs. The rationale behind this move is the BOJ's belief that by purchasing these

²⁹ OECD Survey, *Japan*, December 2003, World Markets Research Centre, Country Analysis, January 2005

³⁰ Economist Intelligence Unit (EIU), *Country Report Japan*, February 2005

³¹ World Markets Research Centre, Recent Updates, December 2004

asset-backed securities (ABS) it can lower the cost of capital to SMEs and thereby encourage them to hire more workers and invest more in plant and equipment. So far the scale of the BOJ's ABS purchase programme has been small, partly because the financial institutions are already selling them to institutional investors, but its willingness to do so signals a more aggressive approach to monetary policy.³²

Non-performing loans

One of the most serious consequences of the fall in asset prices since the early 1990s has been the pressure that this has put on Japan's financial institutions. Many lent heavily to real-estate developers and construction companies at the height of the asset boom in the late 1980s, and much of the lending was undertaken using land as collateral. The collapse in land prices, together with the economic slowdown, which put many borrowers out of business, left the country's banks and non-banks with a huge overhang of problem loans backed by collateral worth sometimes 60-80% less than when the loans were taken out. The total amount of non-performing loans stood at around 8% of GDP in 2001, but they now looked to have approached a 'normal' 4%. A successful reduction in non-performing loans and only one bankruptcy among financial institutions (Ashikaga Bank) in fiscal 2002 and 2003, however, has led to a revised strategy, moving away from emergency measures designed to prevent systematic crisis, towards an emphasis on modernising the financial system as it transits from being public to private sector-led. The Financial Services Agency's focus for 2005-7 now includes strengthening the remainder of the financial system (including regional banks), facilitating the creation of 'financial conglomerates' large enough to compete in global markets and creating a more level playing field between domestic and foreign financial institutions. The new emphasis also promotes mergers and public capital injections for smaller banks. It is argued that one of the reasons why regional economies have not kept pace with the recovery in Tokyo and industrial areas is because local banks have been too weak to support growth. Official supervision of local banks will be strengthened, and banks will be encouraged to avoid over-dependence upon fixed collateral such as land or real estate when granting loans to regional borrowers.³³

Trade

The economic upturn of 2002-2004 was led, in part, by exports, which rose at a 12 per cent annual rate during the 18 months through mid-2003. External demand was concentrated in other Asian economies, which were responsible for a third of the increase in Japanese exports over that period, with China playing a key role. But with overall 2004 performance being revised, the trade surplus for October-December 2004 appears down 9% from a year earlier, due to the faster rate of growth of imports than exports. In recent months exports of a number of major digital products have dropped, while imports have risen due to the surge in global crude oil prices - oil being Japan's single largest import. Yet Japan's trade surplus had been growing steadily on a year-on-year basis over the first two quarters of the current financial year to March 2005, due to strong exports of electronic products and automobiles and auto products to the US, Europe and China.³⁴

2004 saw China (including Hong Kong) overtake the US as Japan's largest trading partner. Imports and exports between Japan and China accounted for just over 20% of Japan's total trade, while US-Japan trade accounted for around 19% of total Japanese imports and exports.³⁵ Japan's exports to

³² Economist Intelligence Unit (EIU), *Country Report Japan*, December 2003

³³ Oxford Analytical, FSA signals new direction for financial reform, 7 January 2005, <http://www.oxan.com/display.aspx?ItemID=DB114986>

³⁴ MaBiCo, 'Japan trade balance in Oct-Dec adversely affects GDP growth', http://www.mabico.com/en/news/20050126/government_ministries/article16470/

³⁵ Washington Post, 'China passes US in Trade with Japan', <http://www.washingtonpost.com/wp->

China amounted to \$113bn, an increase of 17% over the previous year, while imports from China reached \$99bn, also up 17%. Excluding Hong Kong, Japan's trade with China ran a deficit, but with Japan's exports to Hong Kong almost entirely bound for the mainland, Japan's trade with China as a whole is in surplus. China has therefore turned into an important market for Japan, rather than a threat that might flood Japan's domestic market with cheap products, as has been previously feared.³⁶

EU-JAPAN RELATIONS³⁷

The EU maintains good relations with Japan, which are developing steadily in many different areas. Common principles for these relations between Japan and the EU and its Member States were laid down in a political declaration of 1991. A "Joint Declaration on Relations between the European Community and its Member States and Japan" was signed on 18 July 1991. At the 9th EU-Japan Summit held in Tokyo on 19 July 2000, a ten-year Action Plan to reinforce the bilateral partnership and move it from consultation to joint action was agreed. This Declaration established common principles and shared objectives in the political, economic, co-operation and cultural areas and established a consultation framework for annual meetings between Japan and the EU. These include the annual Summit meeting between the President of the European Council, the President of the European Commission and Japan's Prime Minister; biannual Ministerial Troika meetings between the EU Troika at Foreign Ministers level and the Japanese Minister of Foreign Affairs and an annual Commission-Japan Ministerial meeting.

Relations between the two sides are now directed in accordance with the Action Plan. It addresses four major objectives: (1) promoting peace and security; (2) strengthening the economic and trade partnership utilising the dynamism of globalisation for the benefit of all; (3) coping with global and societal challenges, and (4) bringing together people and cultures.

The Action Plan is intended "to lay the foundation for well diversified EU-Japan relations over the decade ahead". The parties plan to co-ordinate regularly, and to update the Action Plan as necessary at the annual EU-Japan Summit.

At the June 2004 EU-Japan Summit, Tokyo, the main issues emphasised were agreement on Disarmament and Non-Proliferation, the co-operation framework for the promotion of EU-Japan two-way investment, as well as other ongoing objectives such as the joint initiative for the enforcement of intellectual property rights in Asia and co-operation on information and communication technology or co-operation in the WTO to abolish customs duties on medicines. It was also agreed to fully utilise EXPO 2005 (Aichi Prefecture, Japan) and the 2005 Japan-EU Year of People to People Exchanges to deepen mutual understanding as well as to increase two-way flows of tourists. With the establishment of the first EU Institute in Japan, the Summit anticipated the opening of a second EU Institute in 2005.

The strengthening of EU-Japan political relations remains a priority objective. Bilateral political dialogue is now quite developed. Each side co-operates actively in each others' geographical region. For example, Japan is a generous and welcome donor to the reconstruction and rehabilitation of the Balkans. The EU, for its part, is engaged in the Korean Peninsula through the *KEDO project* and in humanitarian assistance to North Korea.

Another major pillar of bilateral EU-Japan relations is Regulatory Reform Dialogue, aimed at reducing the number of unnecessary and obstructive regulations that hamper trade and foreign investment. Since 1995, the EU and Japan have participated actively in each other's regulatory reform efforts. Recent progress has been made in such areas as journalism within Japan and work permits for EU Member States, while the Mutual Recognition Agreement (2002) has marked an

³⁷European Commission, http://www.europa.eu.int/comm/trade/issues/bilateral/countries/japan/index_en.htm

important step in facilitating market access.

The nature of bilateral dialogue has therefore changed: while in the past economic relations with Japan were dominated by trade disputes today the focus is on the EU's request for deregulation and structural reforms in Japan. The EU presents requests to Japan in a manner designed to feed into the annual work cycle of the Consultative Council on Regulatory Reform, while Japan submits requests on its concerns in the EU.

The less favourable evolution of the Japanese economy and the slowdown of economic growth have obviously influenced the EU's economic relationship with Japan in the last decade. Since the early 1990's, and especially since its "financial bubble" collapsed, Japan has begun to accept that it has to make special efforts to open its economy to international competition and embark on structural reforms for its own good and for the benefit of the international community.

There are large trade opportunities for European business in Japan. Over the period 1999-2003, EU exports in goods to Japan grew by 3.5% on average per year. With a share of 4.8% (2003) of the EU exports, Japan is the EU's fourth largest export market. With an 8.2% (2003) share of the EU import market, Japan is the third largest source of imports into the EU. Europe is equally a very important market for Japan. In 2003, the EU occupied rank number 3 in Japan's imports and rank number 2 in its exports. In 2002, EU imports and exports of services from and to Japan were €8.9 billion and €17.4 billion, representing 2.9% and 5.3% of world flows, respectively.

Japan is a major investor in the EU. In 2002, 2.2 % of EU inflows came from Japan. At the end of 2002, 4.6% of the stock of EU inward FDI came from Japan, while 1.3% of the EU outflow went to Japan. Over the past 6 years, the EU has become an important investor in Japan. At the end of 2002, 1.3% of the stock of EU outward FDI was in Japan, with a negative inflow (-1.26%) in 2002. Japan's inward FDI has soared since the mid-1990s.

Reforms in the financial, communications and distribution sectors have encouraged foreign investment into these sectors. However, foreign investment to Japan remains very low (less than 2% of GDP), if compared with other developed countries. Even so, the EU has been the major contributor to increased FDI with Vodafone's investment of US \$11 billion the biggest single direct foreign investment in Japanese history.

In the *WTO* the EU and Japan have established *close policy co-operation*. Developing that co-operation is one of the key initiatives in the Action Plan. The EU and Japan launched a bilateral consultation process in 1998 to achieve common positions on issues relating to WTO negotiations. Despite the failure to reach the agreement on the Doha Round in Cancun in September 2003, or some tension over specific agricultural tariffs, EU and Japanese interests continue to coincide.

The EU and Japan co-operate across a very broad range of subjects. There are standing forums for discussion on sectors such as industrial policy, science and technology, research, telecommunications and related services, social affairs, development aid, environmental protection, dialogue on macroeconomics and financial issues as well as transport issues. Inevitably however, differences arise, as over Japanese ratification of International Criminal Court agreements. ICC and EU officials were in Japan in December 2004, however, the lack of progress on the Japanese side is usually put down to practical difficulties (especially within the sluggish Treaties Bureau) rather than a change of political will - though, the US's stance may obviously be a factor. Another contentious issue is the site for the International Thermonuclear Experimental Reactor project (ITER). Equally backed by the other participants (Canada, China, the Russian Federation, S. Korea and the USA), the EU and Japan are still in competition for the nuclear fusion site. ITER is due to start operation in 2015 and run for 20 years. The costs are estimated at about €10 billion (at year 2000 values) for the construction and operation phases as well as the decommissioning. ITER is the largest ever joint

international research project after the International Space Station and could result in a relatively clean and inexhaustible solution to the world's energy problems. Despite the EC's proactive role, ITER can be a very sensitive issue and one that is usually confined to official meetings with all six participants.

Likewise, the death penalty remains a potentially divisive issue. Meetings in Troika format raise the issue biannually with the Japanese. Yet, with popular support for the penalty's continuation, the government, as well as the Japanese at large, view the espousing of European standards as unwelcome cultural interference.

As mentioned, Japan also has obvious problems with the EC and Council stance on the Chinese arms embargo.

In November 1999 a first meeting of consumer associations of the EU and Japan took place in the framework of an EU – Japan consumer dialogue. The European Commission supports the EU-Japan Business Dialogue Round Table (EUJBDRT), a private sector initiative to strengthen links between European and Japanese businesses, and welcomes focused private sector input to government authorities to promote trade and investment between Europe and Japan. The EU-Japan Business Dialogue Round Table significantly contributes to the identification of mutually beneficial initiatives and keeps close track of the progress achieved by both the European and the Japanese administrations.

Since 1979, the European Commission has been encouraging European enterprises to penetrate the Japanese market. To this end it has put in place various promotional activities to further European exports to Japan and to maximise business opportunities there. These promotional activities are known as the Commission's *EXPROM programme*, which consists of three pillars:

- The 'Gateway to Japan' export promotion campaign, which assists small and medium sized companies to enter the Japanese market through Trade Missions and Fairs in specific areas of industry.
- The 'Executive Training Programme' in Japan which is an 18-month Human Resources development programme to enable executives of EU companies to build up an in-depth knowledge of the Japanese business culture and language improving thus their efficiency in the Japanese market,
- An 'Ad-hoc' scheme through which the Commission can provide selective one-off financial support to European market access initiatives aimed at the Japanese market.

The EU-Japan Centre for Industrial Co-operation, which was established in Tokyo in 1987 and in Brussels in 1996, organises training courses and topical missions for EU managers in Japan. It also manages the Vulcanus Programme, which offers courses combining language and in-company training for Japanese engineering students in Europe and for European engineering students in Japan.

The Role of the European Parliament

In most years since 1979, a delegation from the European Parliament has met with a delegation from the Japanese Diet. Since 1996 this has been a regular once-a-year occasion. The European Parliament has thus played an important role in developing EU-Japan relations, not only in building contacts with Diet members but also enhancing the EU's political profile amongst Japanese decision-makers. The last EP/Japan inter-parliamentary meeting (the 25th) took place in Strasbourg-Dublin on 19-25 April 2004.

At it, among the main issues discussed were: the EU's prospective role in the world (especially in relation to enlargement and a Constitution), the situation in N. Korea (particularly in terms of the abductees and how this restricted Japan's options), aspects of the 'Lisbon agenda' and the EU's concessions to the WTO on agricultural (in light of Japanese preference for protection of self-sufficiency). Iraq and Japan's security relationship with the US highlighted the range of views on offer, while the issue of the site for the International Thermonuclear Experimental Reactor project was again raised, as were examples of cultural exchange, with specific reference to 2005 EU-Japan Year of People-to-People Exchange.

The EP has held several debates over the last few years on relations with Japan, dealing both with problems created by Japanese exports to Europe and with the obstacles meeting European exports to Japan³⁸. The following resolutions are of particular relevance: resolution of 18 September 1997, on the Commission communication "The Next Steps"; Resolution of 13 April 1999 on the amended proposal for a regulation on implementation by the Commission of a programme of specific measures and actions to improve access of EU goods and cross-border services to Japan; Resolution of 7 October 1999 on the nuclear accident in Japan; Resolution of 13 June 2002 on the abolition of capital punishment in Japan, South Korea and Taiwan and the Resolution of 3 July 2002 on the EC/Japan agreement: co-operation on anti-competitive activities³⁹. The resolution of 13 June 2002 was to put pressure on Japan, South Korea and Taiwan to take measures to abolish capital punishment and to introduce a moratorium for prisoners on death row. MEPs recognised the efforts being made in the Japanese Parliament to achieve this goal, but nevertheless noted that 55 persons were on death row in Japan.

³⁸ European Parliament, *Fact Sheets Japan*, http://www.europarl.eu.int/factsheets/6_3_10_en.htm

³⁹ The Legislative Observatory, <http://www2.europarl.ep.ec/oeil/>

Annex. Japan: Main Data⁴⁰

JAPAN

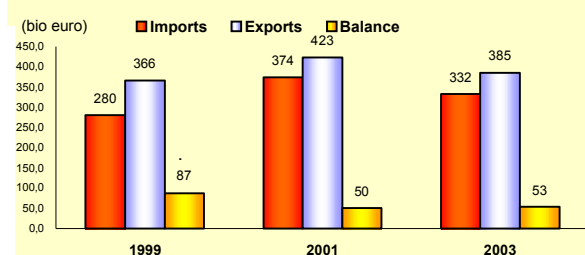


Population:	2003	128 Mio
Area: (1000qkm)	2003	378
Gross Domestic Product	2003	3.803 Bn euro
GDP Per Capita	2003	29.809 euro

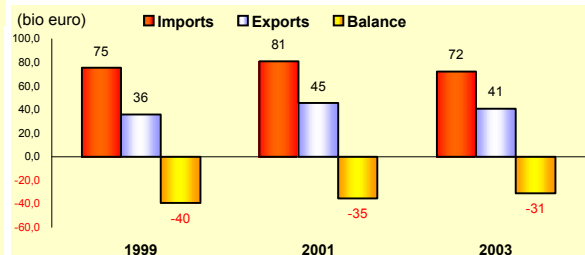
Exports to GDP ratio: 10,1

	2000	2001	2002	2003
Real GDP (% growth)	2,8	0,4	-0,3	2,7
Inflation rate (%)	-0,9	-0,8	-0,9	-0,2
Current Account Balance (% of GDP)	2,5	2,1	2,8	3,2

JAPAN MERCHANDISE TRADE WITH THE WORLD

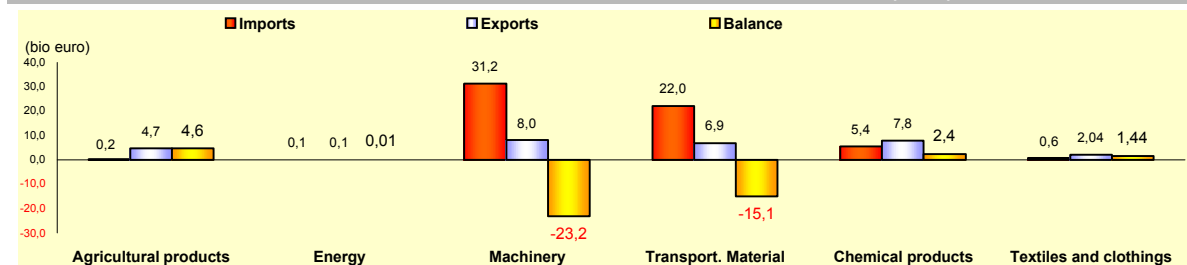


EU25 MERCHANDISE TRADE WITH JAPAN

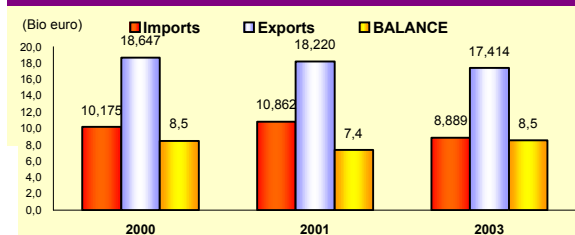


SHARE OF THE WORLD* (%)	1999	2001	2003	SHARE OF EU25 Total (%)	1999	2001	2003
Imports	6,7	6,7	6,8	Imports	10,6	8,7	8,2
Exports	9,3	8,2	8,5	Exports	5,3	5,3	4,8

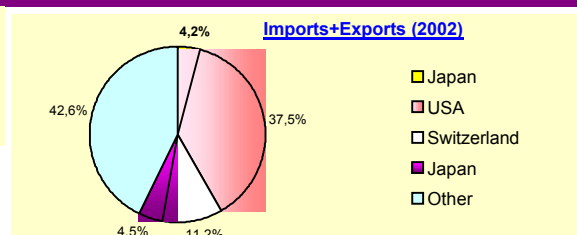
EU25 MERCHANDISE TRADE WITH JAPAN BY PRODUCT (2003)



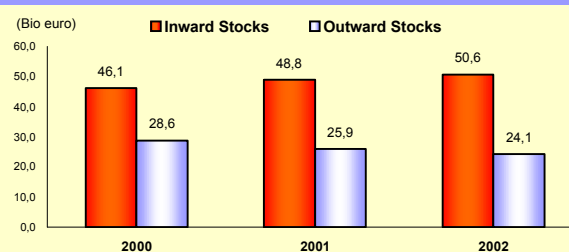
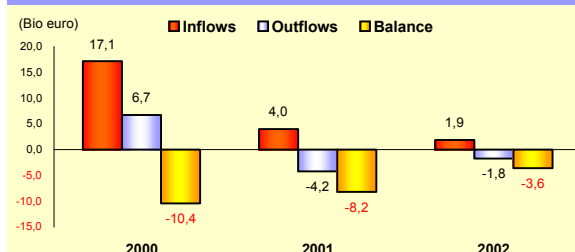
EU15 TRADE IN SERVICES WITH JAPAN



JAPAN SHARE OF EU15 TRADE IN SERVICES



EU15 FOREIGN DIRECT INVESTMENT WITH JAPAN



⁴⁰ http://trade-info.cec.eu.int/doclib/docs/2004/june/tradoc_113403.pdf

